

Auditor's Description of Condition
DSHS Response
Laws & Regulations

The Department of Social and Health Services, Division of Developmental Disabilities, does not have adequate internal controls over its pharmacy drug inventory purchased with Medicaid funds.

Background

Medicaid-funded intensive services are provided in five state operated residential habilitation centers for individuals with developmental disabilities needing a high level of nursing care or skill development. Four of the five centers (Yakima Valley School, Lakeland Village, Fircrest, and Rainier School) have on-site pharmacies. The number of residents living in the four centers ranges from approximately 110 to 370.

Three types of medications are available at the center pharmacies:

- Over-the-counter medicine can be obtained without a prescription. Examples are aspirin and antacids.
- Non-scheduled prescription drugs must be ordered by a doctor or other health care professional with authority to prescribe medications. Examples are antibiotics and blood pressure medications.
- Scheduled drugs, also known as controlled substances, must be dispensed only by prescription and are heavily controlled by federal and state laws and Board of Pharmacy rules. For instance, these drugs must be securely locked, logged in detail by location and usage, and continuously inventoried. Examples are brand-names such as Vicodin and Percocet.

Description of Condition

Non-Scheduled Prescriptions and Over-the-Counter Medications:

We reviewed the inventory controls, ordering and receiving procedures, and access to medications held for destruction. We found the following weaknesses in internal controls:

	Lack of inventory controls	Ordering and receiving functions not separated	Unrestricted access to drugs held for destruction
Yakima Valley School	X		X
Lakeland Village	X		X

Fircrest	X	X	X
Rainier School	X	X	

None of the pharmacies we reviewed had an inventory system capable of tracking or monitoring the quantity of these medications consumed. In an effort to determine the accuracy of the pharmaceutical inventory, we selected oral medications at each pharmacy, calculated the ending inventory for the year, and compared that calculation to the actual ending inventory recorded by the pharmacy. We also calculated the estimated value of the pills for which the pharmacies could not account and found the following:

	Types of Medications Reviewed	Estimated Unaccounted for Pills	Estimated Associated Dollar Amount for Unaccounted for Pills
Yakima Valley	208	527,737	\$187,178
Lakeland Village	181	311,510	\$86,094
Fircrest	199	323,855	\$160,774
Rainier	352	241,843	\$95,287
Totals		1,404,945	\$529,333

Scheduled Drugs:

Because of the close controls exerted over scheduled drugs by federal and state officials, we found fewer internal control weaknesses related to these drugs. However, at two pharmacies, we did find the following weaknesses related to monitoring and safekeeping of scheduled drugs:

Fircrest

- The safe containing some scheduled drugs was not locked.
- From the infirmary's scheduled drug log, we selected 11 entries that noted drugs had been returned to the pharmacy. We attempted to trace each of these items to the pharmacy's return log and identified issues with the returns in eight instances:
 - We found four instances in which required signatures were missing in the transfer between the infirmary and the pharmacy. In these cases, a total of 20 pills from controlled substances such as Ativan, Vicodin and Percocet were unaccounted for in the pharmacy.
 - We found four other instances in which pharmacy procedures were not followed but no drugs were missing.

Rainier School

- Only one person performs the inventory count of Schedule II controlled substances, and the name of the counter is not recorded and retained.
- During the time of our review, one of the drawers containing scheduled drugs was not locked.

Cause of Condition

With staff shortages, the pharmacy employees did not consider control of non-scheduled drugs to be a high priority because the cost of a single item is normally not high. The Division did not explain what caused the loss of the scheduled drugs.

In addition, the centers do not always realize that drugs are part of the Department's consumable inventories and should be subject to at least the same inventory controls as food, clothing, etc. The Office of Financial Management has not made it clear in its inventory requirements that drug supplies are particularly high-risk items requiring firm controls.

Effect of Condition

Weak drug inventory practices increase the risk of loss or misappropriation. Losses may not be detected in a timely manner, if at all. We estimate the centers had a loss of at least \$529,332 in non-scheduled drugs. This amount is included in the amount in the overall Program disclaimer. In addition, the Fircrest pharmacy cannot account for 20 pills from its controlled substances supply.

Recommendations

We recommend:

- All pharmacies develop and follow inventory practices for non-scheduled prescriptions and over-the-counter medications and for controlled substances that are dispersed around the pharmacy.
- Rainier School and Fircrest segregate the responsibilities for ordering and receiving drug inventory.
- Yakima School, Lakeland Village and Fircrest restrict access to drugs being held for destruction.
- Fircrest establish tighter controls over receipt of controlled substances returned from the infirmary to the pharmacy.

Department's Response

The Department concurs with this finding.

- **All pharmacies develop and follow inventory practices for non-scheduled prescriptions and over-the-counter medications and for controlled substances that are dispersed around the pharmacy.** A Process Improvement Team has been chartered by Linda Rolfe, Division Director. The purpose of the team is to design inventory practices that ensure control of scheduled and non-scheduled prescriptions and over-the-counter drugs. Current inventory controls will be reviewed and improved. The team will define mechanisms for tracking and monitoring the quantity of medications consumed. The team is comprised of pharmacists and lead people from each of the residential habilitation centers and will be led by the division's Performance and Quality Improvement program manager. Recommendations with implementation strategies will be made no later than April 30, 2005.
- **Rainier School and Fircrest School segregate the responsibilities for ordering and receiving drug inventory.** Drug ordering and receiving will be segregated. A printout confirmation of all drugs ordered will be signed by the person ordering the drugs. The person receiving the drugs will compare the received drug confirmation and drug packing slips and sign these. The person ordering drugs will no longer be the person who receives them. The signed forms will be filed as a permanent record of all transactions.
- **Yakima School, Lakeland Village, and Fircrest restrict access to drugs being held for destruction.** Each pharmacy will establish a site within the pharmacy that can be secured where all outdated drugs awaiting disposal will be stored no later than January 1, 2005.
- **Fircrest establish tighter controls over receipt of controlled substances returned from the infirmary to the pharmacy.** A new system to monitor controlled substance use is in place at the Fircrest Infirmary. Fircrest Pharmacy has obtained "Controlled Substance Record" books from Western State Hospital (state form #(WSH 14-02A (04-95))) that will serve as a single record for any pharmacy delivery/return of all Schedule II-V drugs at the infirmary. This same book will be used to track individual doses administered to clients admitted to the Fircrest Infirmary.

Auditor's Concluding Remarks

Applicable Laws and Regulations

Code of Federal Regulations, Title 21, Section 1301.75, paragraph b states:

Controlled substances listed in Schedules II, III, IV, and V shall be stored in a securely locked, substantially constructed cabinet. However, pharmacies and institutional practitioners may disperse such substances throughout the stock of noncontrolled substances in such a manner as to obstruct the theft or diversion of the controlled substances.

Washington Administrative Code 246-865-060 (6)(d) states in part:

At least once each 24 hours, the amount of all Schedule II controlled substances stored in the facility shall be counted by at least two persons who are legally authorized to administer drugs.

The Office of Financial Managements *State Accounting and Administrative Manual*, Section 35.10 contains detailed requirements for inventory systems for consumable inventories; however, it does not mention drug inventories.